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Climate reporting in sustainability reporting standards

Prof. Dr. Kerstin Lopatta

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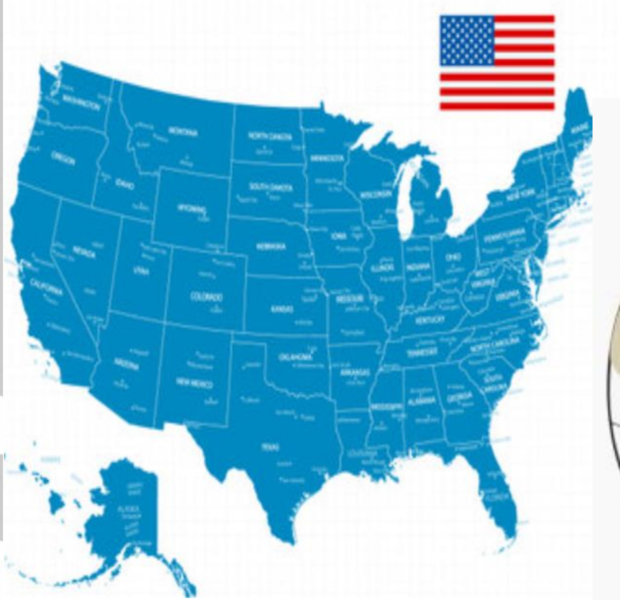
Foto: UHH/Lutsch

Standard Setter

EFRAG

SEC



ISSB

IFRS Sustainability

ESRS Structure

Cross-Cutting Standards

ESRS 1	General requirements
ESRS 2	General disclosures

Environment

ESRS E1	Climate change
ESRS E2	Pollution
ESRS E3	Water and marine resources
ESRS E4	Biodiversity & ecosystems
ESRS E5	Resource use & circular economy

Social

ESRS S1	Own Workforce
ESRS S2	Workers in the value chain
ESRS S3	Affected communities
ESRS S4	Consumers and end-users

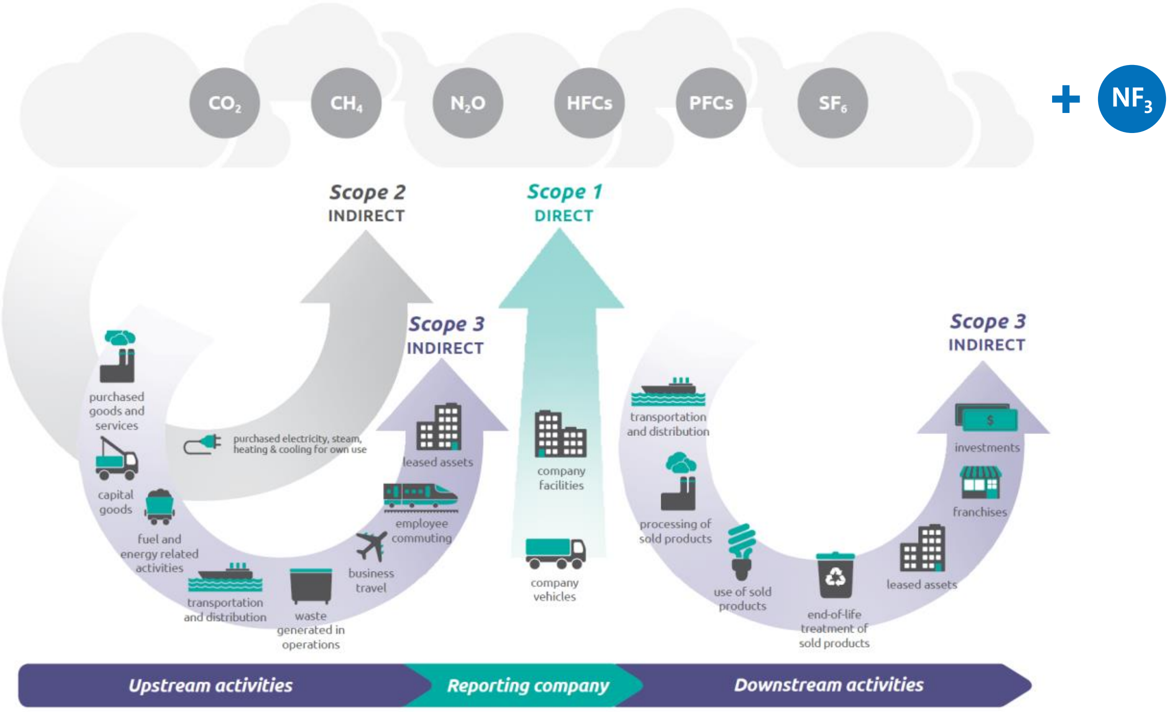
Governance

ESRS G1	Business conduct

ESRS E1 Structure

- Disclosure requirements
  - ESRS 2 General disclosures
    - Governance
    - Strategy
    - Impact, risk, and opportunity management
    - Metrics and targets
- Application requirements

Operational boundaries in climate reporting



Source: Greenhouse Gas Protocol (2011): *Corporate value chain (Scope 3) accounting and reporting standard.*

ESRS E1: Scenario analysis (IRO management)

- ESRS E1 requires that companies disclose if and how they have used scenario analysis to inform their assessment of climate risk exposure (and opportunities).
- **For the use of scenario analyses, companies need appropriate, if possible sector-specific, frameworks and guidance.**
- ESRS E1 names some publicly available climate scenario that companies may use.

ESRS E1: Gross Scope 1, 2, 3 and total GHG emissions (E1-6)

Gross Scope 1 GHG emissions →	Calculations (i.e., using emission factors) and/or measurement	
+		
Gross Scope 2 GHG emissions →	Estimates based on available data (e.g., local grid emissions factors) →	location-based / market-based
+		
Gross Scope 3 GHG emissions →	Mostly estimates based on available data (e.g., supplier emission factors) →	15 categories of Scope 3 emissions
=		
Total GHG emissions →	Calculate (from estimates) →	location-based / market-based
GHG intensity based on net revenue →	Calculate (from estimates) →	location-based / market-based

No netting with GHG removals!

ESRS E1: Further data points

- **GHG removals and mitigation projects (E1-7)**
  - Transparency about how companies enhance natural sinks or apply technical solutions to remove GHG from the atmosphere.

Total GHG removals from own operations

Total GHG removals in the upstream and downstream value chain

GHG emission reductions or removals from climate change mitigation projects outside the value chain it has financed or intends to finance through any purchase of carbon credits ***(Offsets)***.

- **Internal carbon pricing (E1-8)**
  - Is ICP in place and if so, how does it interact with decision making, policies, and targets?

ESRS E1: Further data points

- **Anticipated financial effects (E1-9)**

Physical risk	Assets at material risk over the short-, medium- and long-term before considering ***climate change adaptation actions***	Monetary amount	Location of significant assets at physical risk
		Proportion (percentage) of total assets	
		Proportion addressed by adaptation actions	
	Net revenue from business activities at material risk over the short-, medium- and long-term	Monetary amount	
		Proportion (percentage) of net revenue	
Transition risk	Assets at material risk over the short-, medium- and long-term before considering ***climate mitigation actions***	Monetary amount	
		Proportion (percentage) of total assets	
		Proportion addressed by mitigation actions	
	Breakdown of the carrying value of the undertaking's real estate assets by energy-efficiency classes		
	Liabilities that may have to be recognized in financial statements over the short-, medium- and long-term		
	Net revenue from business activities at material risk over the short-, medium- and long-term	Monetary amount	
		Proportion (percentage) of net revenue	

3 contemporary standards for climate reporting

	ESRS E1	IFRS S2	SEC Climate Disclosure Rule
Origin	▪ Part of the European Sustainability Reporting Standards (ESRS) ▪ *Mandated* by European Regulation (CSRD)	▪ Developed by the ISSB ▪ Fundamentally a *voluntary* framework ▪ Aspiration to become the global baseline standard	▪ The SEC's reaction to increasing financial risks from climate change ▪ Currently at the proposal stage, *mandatory* if implemented
Scope 1	▪ Operational control approach	▪ Equity share, or control approach	▪ Same organizational boundaries as in fin. statements
Scope 2	▪ Market-based **and** location-based methods (dual reporting)	▪ Location-based method required	▪ No single method mandated ▪ Dual reporting allowed
Operational scope	▪ Mandatory reporting of scopes 1-3, ESRS E1 and IFRS S2 allow for phase-in		
Materiality	▪ Double materiality	▪ Financial materiality	▪ Financial materiality

Data points ESRS E1 vs. IFRS S2

- ESRS E1 requires more extensive climate-related disclosures in many aspects compared to IFRS S2.
  - For instance, in relation to anticipated financial effects (ESRS E1) and assets / business activities vulnerable to climate risk (IFRS S2).
- Main points of divergence include the dual reporting of market- and location-based Scope 2 emissions under ESRS E1.
  - Dual reporting not only influences Scope 2 but also Total GHG emissions, and GHG intensity disclosures in E1.
  - Total GHG emissions, and GHG intensity disclosures are not required by IFRS S2.
- Further, whereas ESRS E1 requires the disclosure of GHG removals and offsets, if material, no such requirement exists in IFRS S2.
  - In IFRS S2, GHG removals or offsets are only to be considered in the context of net zero targets.

Contact

Prof. Dr. Kerstin Lopatta
Chair of Financial Accounting, Auditing and Sustainability

Universität Hamburg
Faculty of Business, Economics and Social Sciences
Socioeconomics
Rentzelstraße 7
20146 Hamburg

+49 40 42838-4064
kerstin.lopatta@uni-hamburg.de